

**TAX FORECLOSURE PREVENTION PROJECT**  
**United Community Housing Coalition/Michigan Legal Services**  
**220 Bagley, Suites 224 and 900**  
**Detroit, Michigan 48226**  
**(313) 963-3310 and (313) 964-4130**

September 14, 2009

Hon. Gabe Leland  
House of Representatives  
State of Michigan  
Chair, Urban Policy Committee  
SO 689 House Office Building  
PO Box 30014  
Lansing, MI 48909-7514



Re: Hearing scheduled for September 15, 2009 at 9:00AM  
Urban Policy Committee, 521 House Office Building, Lansing, MI  
Concerning HB 5257, 5258, 5259, 5260, 5261, 5262, 5263, 5264, 5265

Dear Chair Leland:

Thank you for your request for comments concerning the above-referenced bills.

For the past seven years, the United Community Housing Coalition has worked in collaboration with Michigan Legal Services to assist thousands of Wayne County homeowners in tax foreclosure. During this period, we have sent mailings to more than 35,000 households, visited more than 3,000 homeowners in their homes, and counseled over 4,000 households in our offices. We do not believe that there are any non-profit programs in the state providing the same services to such a large number of households in tax foreclosure.

Our efforts to help homeowners include assisting them with efforts to obtain hardship extensions, filing probate cases and circuit court actions to settle title issues and remove the properties from the tax foreclosure process while these issues pend in other courts, filing Michigan Tax Tribunal appeals to correct tax assessments, and assisting homeowners with efforts to obtain poverty exemptions from their local boards of review. Again, we do not believe that there are any other nonprofit organizations in the state providing this level of comprehensive services to permanently resolve tax foreclosure issues for such a large number of homeowners.

We also work with extremely low income homeowners who are struggling to maintain basic utility services. To resolve these problems, we assist families with efforts to obtain

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assistance through the State Department of Human Services, the Veteran's Trust Fund and other charitable sources that provide funds to prevent tax foreclosure or to pay other expenses (such as utility costs) to relieve budget pressures for basic necessities, enabling homeowners to pay their taxes.

We conduct outreach and participate in the annual January administrative hearings process at the offices of the Wayne County Treasurer, and we also appear at all circuit court tax foreclosure hearings to provide assistance to homeowners who file objections and request legal counsel. Moreover, we conduct outreach following the court process throughout the Summer and into the auction periods in the Fall to ensure that the rights of homeowners are protected.

This year-round experience has provided use with a unique perspective concerning the problems faced by homeowners in tax foreclosure at various stages of the process. It is largely as a result of this extensive background, that we support the current package of tax bills designed to provide urgently needed relief to homeowners.

The bills address two general areas of tax foreclosure reform: First, they focus on issues which increase the numbers of homeowners in tax foreclosure by increasing the amounts required to be paid to avoid foreclosure. The principal issues here are the excessive (18%) interest rate currently charged on delinquent accounts and the increasing use of the tax foreclosure process to collect water bills. Secondly, the bills address efforts to reform the exemption process for low income homeowners to provide for education and an increased awareness of the program, as well as to provide discretion to local communities to provide exemptions for an immediate prior year if the homeowner was not aware of the process and failed to apply.

The current charge of an 18% (credit card) interest rate as a tax penalty is unconscionable. It is a shocking interest rate for the government to be charging at the same time that it is looking for ways to regulate predatory lenders. The government's interest in encouraging homeowners to pay their property taxes timely is understandable. However, we encounter far too many homeowners who simply could not pay the taxes timely and who thereafter accumulate interest and penalties nearly as high or higher than their original base tax charge. Lenders who charge excessive interest to create debt that is not affordable for consumers are considered predatory. The state and federal governments have struggled with efforts to outlaw these practices. We therefore do not expect our government to charge these same types of predatory interest rates to homeowners, causing them to lose their homes and contributing to the current foreclosure crisis that is destroying neighborhoods and communities that the state is attempting to rebuild.

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As of 2006, the City of Detroit commenced the practice of adding uncollected water bills to the tax rolls as liens and transferring the taxes and water liens to the county for collection. For many years, this practice has been a problem in Highland Park and many other smaller communities. In Detroit, water liens subject to the county tax collection process are jeopardizing the housing of thousands of homeowners. In 2006, this collection program was commenced as a pilot project in certain areas of Detroit. In 2007, the program expanded city-wide.

There are a number of problems that this process creates and ultimately the practice benefits no one. Water liens are added to the tax liens for collection. The city treasurer, rather than the Detroit Board of Water Commissioners (DBWC), is then responsible for collection. The water bills issued by the DBWC are reset to \$0 (after the delinquent amounts are transferred to the city treasurer for collection). We have witnessed the confusion that this has caused for many Highland Park and Detroit residents, particularly when they have paid their water bills or were protesting grossly excessive water bills. When the city treasurer is not able to collect payment, the liens are transferred to the county treasurer who then pays the city. If the homeowner is not able to pay at this point, the 18% interest described above begins to accrue on the water bill because it is now a tax bill. If the water bill was incorrect, how does the homeowner challenge it at this point? The county treasurer has no responsibility for water, so his position is that he cannot make any adjustments to the charges for incorrect bills. The same is true for the city treasurer. The water board has already been paid for the water and it is nearly impossible to challenge the bill at this stage.

Thereafter, the property is auctioned. Recent experience with properties auctioned by the Wayne County Treasurer in Detroit and Highland Park indicates that the property is sold at auction for an amount which is far below the full taxes and water bills owed. In Detroit and Highland Park these properties are often sold for as little as \$500. When this happens, the County Treasurer recoups the funds from the city's future reimbursements. NO ONE ULTIMATELY BENEFITS FROM THIS PRACTICE and the homeowner loses his or her home.

Not permitting water bills to be added to the tax liens for collection through this process, does not mean that these bills would never be paid. If the property is not sold through tax foreclosure, the liens are satisfied at point of sale. Also, the water board typically uses the threat of disconnected service to encourage payment.

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Many low income homeowners, particularly seniors, are not aware of the Michigan poverty tax exemption statute at MCL 211.7u, and any local efforts to implement this law. Some are also not aware that they must apply for an exemption annually. In our work with low income homeowners in Wayne County, we frequently encounter homeowners in tax foreclosure for taxes which could have been abated in an exemption process, had an application been timely filed during the appropriate tax year. Unfortunately, when these families reach us at the point of tax foreclosure, it is too late for them to access the process for delinquent taxes that are fast growing beyond their means with an 18% penalty interest rate.

Simple reforms in this package of bills to provide for greater notice of the local tax exemption program, and a more uniform process will help many. Allowing local communities to extend the exemptions to the prior year (if the homeowner also qualified for that year) will reduce the total tax burden on low income homeowners at the point of tax foreclosure.

Collectively, these bills will provide enormous relief to struggling homeowners in Michigan. We strongly support the passage of these bills.

Sincerely,

Ted Phillips  
Director, United Community Housing Coalition

Marilyn Mullane  
Director, Michigan Legal Services